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October 14, 1982

MEMORANDUM FOR THE VICE PRESIDENT
 THE SECRETARY OF STATE
 THE SECRETARY OF DEFENSE
 THE SECRETARY OF THE TREASURY
 THE SECRETARY OF COMMERCE
 THE SECRETARY OF THE INTERIOR
 THE SECRETARY OF ENERGY
 THE DIRECTOR OF THE OFFICE OF
 MANAGEMENT AND BUDGET
 THE DIRECTOR OF CENTRAL INTELLIGENCE
 THE ASSISTANT TO THE PRESIDENT FOR
 POLICY DEVELOPMENT
 THE CHAIRMAN OF THE COUNCIL ON
 ENVIRONMENTAL QUALITY
 THE CHAIRMAN OF THE JOINT CHIEFS OF STAFF
 THE DIRECTOR OF THE FEDERAL EMERGENCY
 MANAGEMENT AGENCY

SUBJECT: Basic Policy Framework and Schedule of Studies
 for Final Stages of NSSD-9 (S)

The work on NSSD-9, Comprehensive U.S. Energy Security Policy, is approaching its final stages. Thus far, the study has developed a common, interagency analytical base of energy (especially oil) supply and demand projections for this decade (and out to the year 2000), and the potential U.S. and free world energy dependence and vulnerability that result from these projections. This work then examines a range of possible disruptions to U.S. and allied energy supplies in the given time-frame and the effects of these disruptions on the U.S. and world economies and military capabilities. (S)

In its current work, the study is dealing with basic U.S. policy responses to mitigate the effects of the various energy disruptions projected in the earlier work. This effort builds on the Administration's existing approach to energy security emphasizing primary reliance on the marketplace, steady build-up of SPR, political solidarity with America's oil importing allies in Europe and Japan, and the revitalization of America's defense capabilities. (S)

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The participating agencies have reached consensus on a comprehensive policy framework and schedule of studies for further development of U.S. emergency energy preparedness policies. The attachment to this memo sets out the agreed approach and identifies existing policies and new policy directions and development to strengthen further U.S. energy emergency preparedness. In the case of new policies, it directs additional studies to begin over the next six (6) weeks leading to interim conclusions and further guidance to be incorporated in the national security decision directive completing NSSD-9. These studies examine potential U.S. policy responses to various types of emergencies without locking the U.S. government into any preconceived responses before a crisis. They establish a solid base on which the agencies can continue to refine U.S. energy security policy and procedures after the conclusion of NSSD-9. (S)

FOR THE PRESIDENT:



William P. Clark

Attachment

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TOP SECRETTOP SECRETU.S. Energy Security Policy: Interim
Policy Framework and Schedule of Studies

U.S. energy security policy rests on three fundamental policy principles:

- Primary reliance on the domestic and international marketplace - both before and, to the extent possible, during an emergency.* (C)
- Preparedness to intervene, if necessary, to enhance energy supplies in an emergency. (C)
- Provision of energy supplies for defense, and broader national security purposes under all circumstances.** (C)

In implementing these principles, the Administration has established a set of existing policies and further policy directions:

- To improve the functioning of the domestic and international marketplace before a crisis. (C)
- To enhance supply in an emergency without controlling price, supply or demand. (C)
- To ensure that the U.S. government and its allies can acquire the necessary fuel supplies to meet Western defense requirements under all circumstances. (C)

I. Improving the Functioning of the Marketplace Before a Crisis

A. Existing Policies

1. Decontrol of oil prices and more general deregulation of energy markets. (U)
2. No standby price control and allocation plans which distort incentives in the private market to insure against emergencies. (The one exception here is the IEA emergency sharing plan, which we will not challenge, but seek gradually over time to modify toward greater use of markets.) (C)

*An emergency is defined as the various classes of oil supply disruptions considered in this study.

**The circumstances referred to include the predisruption and disruption circumstances considered in this study.

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B. Further Policy Studies

1. Continuing consideration of domestic measures (gas deregulation, Alaskan oil exports, coal slurry pipelines, etc.) to deregulate U.S. energy markets. (C)
2. Studies to identify, evaluate and, if feasible, remove obstacles to development of efficient futures markets as a means of making available to private parties insurance against oil price increases in a crisis. (C)
3. Further investigation, evaluation and, if appropriate, elimination of disincentives to private stockpiling before a crisis. (C)
4. New or intensified international initiatives:
 - a. To encourage market pricing of energy in countries that continue to control prices or are inclined to do so in crises. (U)
 - b. To remove obstacles to economical development of Western energy sources as alternatives to Soviet energy imports. (C)
 - c. To monitor and, as possible, work against any developments in the international oil market that reduce flexibility in moving oil supplies around in a crisis. (C)

II. Intervening to Increase Energy Supplies and Facilitate the Functioning of the Marketplace in a Crisis**A. Existing Policies**

1. Build-up of SPR (size studies, current fill rate policy, etc.). (U)
2. Existing SPR Plan and Distribution Plan (done by previous Administration). (U)
3. Facilitate operation of the marketplace in a crisis. (U)
4. Support for stockpiling activities of IEA. (C)
5. Rejection of sub-trigger plans in IEA to be put in place before a crisis. (C)

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B. Further Policy Studies -- Interagency analysis of five broad types of policy instruments to enhance supplies and facilitate the functioning of the marketplace in an emergency; SPR drawdown responses, monetary and fiscal policy actions (macro and micro), surge production responses, international responses, and marketplace facilitating measures. To develop these responses, the following work will be carried on: (S)

1. SPR Drawdown Responses

- a. For each class of disruption, consider SPR drawdown responses for the full range of cases in Part II D (varying the four variables involved in each class of disruption-- consumption, demand response capability, production response capability, and probability of future disruption). (S)
- b. Measure impact of SPR drawdown responses on price effects caused by disruption as projected in Part II D of NSSD-9. (S)
- c. Identify SPR drawdown responses that appear to be most effective in mitigating effects of disruptions under given assumptions. (S)

2. Monetary and Fiscal Policy Responses

- a. Preliminary assessment of whether the Tatum model can realistically project macroeconomic effects of disruptions considered in Part II D of NSSD-9. (These results will be incorporated in Part II D.) (C)
- b. Assessment of whether further refinements to the Tatum model are necessary and assessment of other possible models (Hudson-Jurgenson) for projecting macroeconomic consequences -- possible outside studies to be commissioned after NSSD-9. (C)
- c. If reliable macroeconomic effects can be projected, consider how established Administration policy and various alternative aggregate fiscal and monetary policy responses may ameliorate or exacerbate the effects of the various supply disruptions considered in Part II D of NSSD-9. (S)

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- d. As a last step, make preliminary assessment of circumstances under which micro fiscal policy responses (tax cuts, disruption tariffs, income transfers, etc.) might be appropriate to alleviate hardships in a crisis, and how such policies would be most efficiently administered. (C)

3. Surge Production Responses

- a. In-depth evaluation of existing work on the following alternatives to determine technical and administrative feasibility; economic, environmental, health or other costs and effects; and oil supply substitution potential: (C)
- Electric utility power wheeling. (U)
 - Utilization of excess natural gas deliverability. (U)
 - Potential increases in natural gas imports. (U)
 - Temporary production above MER for domestic oil and gas wells. (C)
 - Temporary relaxation of Clean Air Act sulphur and lead standards. (C)
 - Coal production and use enhancement. (U)
 - Remove impediments to flexibility in energy transportation system. (U)
 - Temporary nuclear power increases in power generation through changes to maintenance schedules and new plant start-up procedures. (C)
 - Potential increases in supply by eliminating impediments that may exist in many regulatory areas, such as the Fuel Use Act. (C)

The analysis of each alternative should cover the following areas:

- Technical, legal and administrative feasibility of the alternative. (C)

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- Main problems and impediments to the alternative. (C)
 - Economic costs and any environmental, health or other significant costs or effects. (C)
 - Oil supply enhancement or substitution potential. (C)
 - Include only the potential over and above what the market is expected to produce under current policies. (C)
 - Distinguish between longer-term effects (e.g., that might result from accelerated licensing of nuclear plants) and temporary short-run supply or substitution effects (e.g., resulting from improved power wheeling). (C)
 - Time schedule in which the potential could be realized? (C)
 - Cost per barrel, in present value terms, to achieve the supply enhancement or substitution potential. (C)
 - Legislative changes required, if any. (C)
 - Identification of any further analysis required. (C)
- b. Identify further work to be continued after NSSD-9. (C)

4. International Responses

- a. Identification, and strategy for implementation, of initiatives in IEA related to higher stock levels and informal, open-ended (i.e., no fixed plans agreed to before a crisis) discussions of how each IEA member may use its stocks under all types of circumstances. (S)
- b. Assessment of effects of emergencies on economic and political well-being of other countries and their responses. (S)

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- Identify key countries. (S)
 - Identify specific vulnerabilities. (S)
 - Identify possible measures to alleviate deficiencies by the country itself, the U.S. and the IEA. (S)
- c. Assessment of alternative ideas to influence over time the IEA emergency sharing program in more market-oriented and supply-side directions. (S)

5. Marketplace Facilitating Measures

- a. Evaluation of public information and liaison measures in an emergency. (C)
- b. Assessment of the need and role in an emergency of National Defense Executive Reserve programs and other group activities, such as voluntary agreements, which may require legislative and/or regulatory actions now to assure their availability. (C)
- c. Development and assessment of self-help measures, such as buying cooperatives or use of futures markets, for application by States and localities in energy emergency situations without Federal involvement. (C)

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- A. Under normal pre-crisis market circumstances. (U)
1. Existing Policies (U)
 - a. Relevant DOD procurement regulations currently in force. (U)
 2. Further Policy Studies (U)
 - a. Review, evaluate, and, if appropriate, remove obstacles to DOD's access to the marketplace on a competitive basis with commercial buyers. (C)
- B. Under disruption circumstances projected in this study, assuming no mobilization of defense forces or civilian economy: (S)
1. Meeting U.S. direct defense energy requirements from CONUS sources.
 - a. Existing Policies (U)
 - More intensive procurement practices, e.g., resolicitations, waivers. (S)
 - Jaw-boning in cooperation with DOE. (S)
 - Procedures for the use of the Defense Production Act to assure priority access of DOD to necessary energy requirements at market prevailing prices. (S)
 - b. Further Policy Studies (U)
 - Study ways to enable DOD to operate more effectively in the marketplace to meet its requirements, taking into consideration the disruption scenarios from Part II D of NSSD-9. (S)
 - Assess legislative/regulatory changes to allow DOD to waive or modify certain provisions in order to meet its requirements in the market. (S)
 - Consider budget impacts of meeting DOD requirements under each disruption scenario. (S)
 - Assess alternatives to provide, if needed, anti-trust defense for industry representatives participating in DOD energy emergency planning activities. (S)

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- Assess alternatives to the marketplace for meeting DOD requirements. (S)
 - Review existing DPA procedures to ensure that allocation orders can be met by potential suppliers for direct DOD military and industrial base requirements. (S)
 - Assess any other alternatives that appear necessary and desirable. (S)
- 2. Assessing how Allied and friendly nations will secure their necessary military supplies including U.S. acquisition overseas for U.S. military requirements. (S)
 - a. Existing Policies (U)
 - Participation in NATO activities within the Civil Emergency Planning Committee structure. (S)
 - Bilateral discussions regarding assistance with fuel storage and stocks. (S)
 - b. Further Policy Studies (U)
 - Qualitatively and quantitatively identify outstanding problems with capabilities of U.S. and allied military to meet requirements for fuel during peacetime oil disruptions. (S)
 - Commitment to continued active participation in NATO fora; particularly the Petroleum Planning Committee over the next fiscal year. (S)
 - Begin work on problems identified above. (S)
- 3. Evaluating economic and financial viability of key allies during energy disruptions as it relates to their capacity to meet military obligations (assessment of broader capacity to meet economic and political needs is included in Part II above). (S)
 - a. Existing Policies (U)
 - Limited economic and security assistance. (S)
 - b. Further Policy Studies (U)
 - Identify key countries and issues. (S)
 - Begin to analyze the extent to which, in the identified key countries, economic vulnerability may affect their own or U.S. military readiness and sustainability. (S)

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- Assess alternatives for dealing with such situations including encouraging NATO allies to increase current preparedness levels and U.S., as well as cooperative allied, assistance that may be suitable for helping problem countries. (S)
- C. Under emergency circumstances assuming defense and related civilian economic mobilization to deal with a Middle East conflict where there are (i) no conflicts elsewhere in the world, and (ii) conflicts in Europe, Asia or both. (TS)
1. Existing policies: DPA, NATO Wartime Oil Organization, Host Nation Support Commitments. (S)
 2. Further Policy Studies. (U)
 - a. Identify appropriate interagency fora for coordinating analysis of this class of issues. (S)
 - b. Produce list of minimum set of issues that should be addressed given knowledge acquired under NSDD-9 to include: (S)
 - DOD military petroleum requirements. Review of strategy for total requirements by theater. (S)
 - Assuring allied and friendly nation military requirements. (S)
 - Defense-related industrial/transportation requirements. (S)

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